

Message Text

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ACTION OPIC-12

INFO OCT-01 EA-11 ISO-00 SPC-03 SAM-01 AID-20 EB-11 NSC-10

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 L-03 IGA-02

/107 W

----- 100777

R 030800Z MAR 74

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 1088

INFO AMEMBASSY BANGKOK

AMCONSUL HONG KONG

AMEMBASSY KUALA LUMPUR

AMEMBASSY MANILA

AMCONSUL MEDAN

AMEMBASSY SINGAPORE

AMCONSUL SURABAYA

AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 1 OF 2 JAKARTA 2654

PASS OPIC FOR CULMAN

E.O. 11652: GDS

TAGS: EFIN, BEXP, ID

SUBJ: DEVELOPMENTS AND OUTLOOK IN INVESTMENT CLIMATE

REFS: A) JAKARTA 0982 B) JAKARTA 1008 C) JAKARTA 0316

D) JAKARTA 2356

1. SUMMARY: INITIAL REACTIONS OF FOREIGN INVESTORS AND FOREIGN EMBASSIES TO JANUARY EVENTS WERE GENERALLY PHILOSOPHICAL. RECENTLY, HOWEVER, INVESTORS CONCERNED BY EXTENT OF RESTRICTIVE TREND IN INVESTMENT ATMOSPHERE. BY FAR GREATEST CONCERN FOCUSES ON CONTINUED UNCERTAINTIES ABOUT GUIDELINE FOR EVENTUAL 51 PERCENT LOCAL PARTICIPATION--WHETHER RETROACTIVE, HOW SELECTIVELY AND OVER WHAT PERIOD IT MIGHT BE APPLIED. AFTER INITIAL SPATE OF OFFICIAL STATEMENTS OVER-REACTING TO PRESIDENT'S GUIDELINES, WE ARE
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NOW INFORMED THAT SUCH STATEMENTS CANNOT BE TAKEN AS DEFINITIVE.

WE HAVE SOME INDICATIONS THAT ECONOMIC MINISTERS SEEKING TO DEAL WITH INDIVIDUAL CASES AND FORMULATE IMPLEMENTING DECISIONS IN WAYS WHICH WILL REFLECT MORE REALISTIC APPRECIATION OF CONDITIONS NECESSARY FOR SATISFACTORY FOREIGN INVESTMENT CLIMATE. END SUMMARY

2. IN APPRAISING EFFECTS MID-JANUARY RIOTS AND SUBSEQUENT EVENTS ON INDONESIAN INVESTMENT CLIMATE, EMBASSY GENERALLY FOUND REACTION OF MOST RESIDENT INVESTORS, FOREIGN EMBASSIES AND MAJORITY OF VISITING INVESTOR CANDIDATES TO BE PHILOSOPHICAL, REFLECTING EXPECTATION THERE WOULD BE FURTHER TIGHTENING OF FOREIGN INVESTMENT CONDITIONS BUT THAT BASIC ATTRACTIONS OF INVESTMENT IN INDONESIA REMAIN ESSENTIALLY UNCHANGED. SOME POTENTIAL NEW INVESTORS POSTPONED DECISIONS FOR INDONESIA UNTIL SITUATION CLARIFIES.

3. HOWEVER IN PAST WEEK OR SO, INVESTORS HAVE SHOWN INTENSIFIED CONCERN NOT SO MUCH OVER POLITICAL EVENTS OR QUESTIONS OF GOVERNMENTAL STABILITY, BUT RATHER OVER OFFICIALS' STATEMENTS INTERPRETING PRESIDENT SUHARTO'S ANNOUNCED INTENT THAT 51 PERCENT OF FOREIGN INVESTMENTS SHOULD EVENTUALLY BE DOMESTICALLY OWNED. IN THESE STATEMENTS, VARIOUS OFFICIALS SEEMED TO OUTDO EACH OTHER IN PROVING DEVOTION TO PRIBUMI (INDIGENOUS) BUSINESSMEN BY CALLING FOR INCREASED RESTRICTIONS ON FOREIGN INVESTORS.

4. U.S. HEADQUARTERS OF INVESTORS ARE PRESSURING THEIR JAKARTA MANAGERS TO EVALUATE FUTURE OF INDONESIA'S INVESTMENT CLIMATE, DIFFICULT IF NOT IMPOSSIBLE TASK IN VIEW MANY CONFLICTING SIGNALS AS TO HOW INVESTMENT POLICIES WILL BE IMPLEMENTED.

T. WE TURNED TO INVESTMENT BOARD VICE CHAIRMAN SUHUD AS MOST PROMISING SOURCE FOR CLARIFICATION. WE EXPRESSED CONCERN THAT IF LOCAL PARTICIPATION POLICIES WERE IMPLEMENTED (A) WITH RETROACTIVITY, (B) ACROSS THE BOARD, WITHOUT SELECTIVITY OR (C) WITHOUT REASONABLE TRANSITION PERIOD, INVESTORS HAVE INDICATED MANY WOULD POSTPONE OR CANCEL INVESTMENT PLANS FOR

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INDONESIA. WE CITED TWO ELECTRONIC FIRMS WHICH MAY MAKE DECISION WITHIN NEXT TWO WEEKS TO WITHDRAW FROM INVESTMENT PROJECTS INVOLVING EMPLOYMENT OF 10,000 OR MORE INDONESIANS UNLESS EXEMPTIONS FROM THIS POLICY ARE APPROVED.

6. SUHUD EXPRESSED HIS OWN CONCERN AT OVER-REACTION OF GOVERNMENT OFFICIALS AND COMPETITION AMONG THEM TO PROVE

THEIR SUPPORT FOR PRESIDENT'S POLICIES. SUHUD CONFIRMED UNEQUIVOCALLY THAT DECISIONS ON HOW TO IMPLEMENT 51 PERCENT PARTICIPATION POLICY HAVE NOT RPT NOT YET BEEN MADE. HE INDICATED PRESIDENT SUHARTO HAS ASKED MINISTERS OF ECONOMIC STABILIZATION COUNCIL TO PRODUCE IMPLEMENTING DECISIONS AND GUIDELINES BY ABOUT APRIL 1. IN RESPONSE OUR QUERY, SUHUD SAID WE COULD WITH CONFIDENCE, ADVISE INPGESTORS NOT TO MAKE JUDGEMENTS OR TAKE ANY OFFICIAL STATEMENTS AS DEFINITIVE UNTIL DECISIONS ARE ANNOUNCED APPROXIMATELY APRIL 1. SUHUD IS RECOMMENDING TO MINISTERS THAT 51 PERCENT PARTICIPATION REQUIREMENT NOT RPT NOT BE APPLIED RETROACTIVELY, EXCLUDE EXPORT, HIGH TECHNOLOGY AND OFF-SHORE PROCESSING INDUSTRIES, AND PERMIT TRANSITION EXCEEDING 10 YEARS.

7. WE SUGGESTED THAT CASES OF TWO MAJOR ELECTRONICS INVESTORS FACING QUOTE GO/NO GO UNQUOTE DECISION WITHIN TEN DAYS MIGHT ENABLE INVESTMENT BOARD TO POSE KEY ISSUE OF EMPLOYMENT VS. LOCAL MANAGEMENT PARTICIPATION FOR MINISTERS TO DECIDE IN ADVANCE OF APRIL 1. SUHUD AGREED TO RAISE THIS ISSUE AT THE INVESTMENT BOARD MEETING FEBRUARY 21 AS A FIRST STEP TOWARD GETTING CABINET DELIBERATION OF THIS QUESTION WITH LETTERS FROM COMPANIES REQUESTING ASSURANCE THAT ORIGINAL CONDITIONS THEIR INVESTMENT WOULD STILL APPLY. INVESTORS (FAIRCHILD AND NATIONAL SEMICONDUCTOR) WERE ADVISED AFTER FEBRUARY 21 MEETING THAT INVESTMENT BOARD (BKPM) RECOMMENDED REAFFIRMATION OF ORIGINAL TERMS OF THEIR INVESTMENT, INCLUDING 100 PERCENT OWNERSHIP. WRITTEN ASSURANCE THIS EFFECT, WHICH MUST BE CLEARED BY PLANNING BOARD CHAIRMAN MINISTER WIDJOJO, EXPECTED NEXT WEEK. SUHUD HOPEFUL ECON STABILIZATION COUNCIL (ESC) MEETING ON MARCH 6 WILL CONSIDER GENERAL EXEMPTION FOR EXPORT INDUSTRIES. (ONE CONFIDENTIAL

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HELPFUL FACTOR WHICH CERTAIN TO TEMPER INDONESIAN DECISION IS THEIR AWARENESS THAT PHILIPPINES GOVERNMENT NOW ACTIVELY PROMOTING ELECTRONICS INVESTMENTS BY ASSURING LONG-TERM EXEMPTION FROM ITS FILIPINIZATION REQUIREMENTS.)

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INFO OCT-01 EA-11 ISO-00 SPC-03 SAM-01 AID-20 EB-11 NSC-10

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 L-03 IGA-02

/107 W

----- 100800

R 030800Z MAR 74

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 1089

INFO RUMTBKXAMEMBASSY BANGKOK 4115

AMCONSUL HONG KONG

AMEMBASSY KUALA LUMPUR

AMEMBASSY MANILA

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AMCONSUL SURABAYA

AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 2 OF 2 JAKARTA 2654

PASS OPIC FOR CULMAN

9. COMMENT: WITH PRESIDENT SUHARTO IN BULLISH MOOD AND REPORTEDLY IMPATIENT WITH DELAYS IN CARRYING OUT HIS REFORMS, ECONOMIC MINISTERS MAY WELL WISH TO AVOID GIVING IMPRESSION, ESPECIALLY IN BLACK AND WHITE, THEY WATERING DOWN PRESIDENT'S GUIDELINES. WE REMAIN HOPEFUL HOWEVER THAT IN MAKING DECISIONS ON CURRENT CASES AND IN INTERPRETING AND IMPLEMENTING PRESIDENT'S GUIDELINES, GOI WILL GRADUALLY ACCOMMODATE GUIDELINES TO REQUIREMENTS FOR RETAINING AND ATTRACTING INVESTORS IN MOST INVESTMENT SECTORS. WE EXPECT THAT FORMULAE FOR IMPLEMENTING LOCAL PARTICIPATION REQUIREMENT WILL PERMIT ALTERNATIVES TO STRAIGHT SCHEDULE OF PROGRESSIVE LOCAL VOTING STOCK CONTROL. AT WORKING LEVELS VARIETY OF ALTERNATIVES, INCLUDING NON-VOTING OR PREFRRED STOCK, STOCK-FUNDED PENSION PLANS, EMPLOYEE STOCK PRUCHASE AND BONUS PLANS, AND FORMATION OF ANCILLARY LOCAL SUBSIDIARIES WITH CONFIDENTIAL

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INDONESIANS HAVING LARGE OR MAJORITY PARTICIPATION FOR PURCHASING, SERVICING OR MARKETING ALL BEING CONSIDERED. WE DO HOWEVER EXPECT SOME GOI PRESSURE FOR VOLUNTARY ACCELERATION OF LOCAL PARTICIPATION EVEN BY INVESTORS EXEMPTED FROM GUIDELINES.

10. IN INTERIM, BEFORE CLARIFYING DECISIONS ARE MADE, PRESIDENT SUHARTO'S GUIDELINES HAVE IN EFFECT CREATED A KIND OF OPEN SEASON FOR BUREAUCRATS TO TIGHTEN UP AND PROMULGATE RESTRICTIVE MEASURES, E.G. REQUIRING FOREIGN BRANCH BANKS TO CONDUCT CERTAIN ASPECTS THEIR BUSINESS WITH LOCAL PARTNERS (REF C), AND REQUIRING INVESTORS TO OPEN L/CS ON IMPORT AND EXPORTS WHERE THIS NOT PREVIOUSLY REQUIRED OR PRACTICAL. WE ARE GUARDEDLY HOPEFUL THESE ACTIONS WILL ABATE, BE MODIFIED OR REVERSED AS MORE DEFINITIVE GUIDELINES FORMULATED DURING COMING WEEKS. DESPITE ITS NEW MORE SELF-SUFFICIENT ATTITUDE, INDONESIA FAR FROM ABLE TO AFFORD TO JEOPARDIZE PROSPECTIVE FOREIGN INVESTMENT, PARTICULARLY WHERE JOBS AND IMPORTANT TECHNICAL SECTORS ARE INVOLVED.

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